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UNITED STATES GENERAL ACCOUNTING OFFICE
WASHINGTON, D.C. 20548

CIVIL DIVISION

JUL 14 1970

Dear Mr. Schwartz:

We have reviewed selected administrative operations and related financial transactions of the Office of Education, Department of Health, Education, and Welfare, Washington, D.C. Our review was directed primarily toward the settlement of the accounts of certifying officers through fiscal year 1969. The review included cash counts of the imprest fund under the control of the cashiers and such tests of the financial transactions as we considered appropriate. The major part of our work was completed by January 1970.

While we found that the administrative procedures were generally satisfactory, we noted certain weaknesses in internal controls relating to the handling of travel advances, progress payments to contractors and consultants, and letter of credit operations. These matters are presented below for your consideration and appropriate action.

TRAVEL ACTIVITIES

OE regulations relating to the liquidation of outstanding travel advances require a traveler to submit a voucher to the Finance Division within 10 working days after the completion of a trip. The voucher is audited by the Finance Division, and the traveler is notified as to any amount due the Government. The excess amount of a travel advance is required to be repaid within 10 working days after notification from the Finance Division.

Untimely liquidation of
outstanding travel advances

Our review of the 191 travel advances outstanding at August 25, 1969, showed that 83 (about 44 percent) were outstanding for a period of 21 or more working days after completion of the travel. Of the 83 advances, 39 were outstanding from 21 to 40 working days, 39 from 41 to 100 working days, and 5 for periods of 111, 116, 122, 140 and 303 working days, respectively.

We believe that these travel advances were not liquidated because the travelers did not submit their vouchers to the Finance Division in

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a timely manner, as required under OE regulations, and personnel of the Finance Division did not perform periodic reviews and analyses of outstanding travel advances and take prompt action to liquidate such advances, as required by Title 7, Chapter 5, Section 25.6 of the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies.

OE officials informed us that procedures had not been established for systematic follow-up of outstanding travel advances. We were told that follow-up reviews were made only when time allowed and that the last follow-up review was made in April 1969. At that time a travel clerk examined the outstanding travel advance file, determined which advances had been outstanding 10 or more working days beyond the completion of travel, and sent a notice to a number of responsible individuals requesting them to liquidate their advances.

In early October 1969, we requested the Finance Division to furnish us information regarding the status of 58 of the aforementioned 83 outstanding travel advances. In December 1969, we were informed that 28 of the 58 advances had been liquidated; that the Finance Division was in the process of recovering the amounts due the Government from 16 travelers, and that letters had been sent requesting the remaining 14 travelers to liquidate their travel advances.

General ledger control accounts not reconciled
with outstanding travel advance records

We noted that the general ledger control accounts for outstanding travel advances were not being periodically reconciled with supporting records of individual outstanding travel advances, as required by Title 7, Chapter 5, Section 25.6 of the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies. We also noted that the general ledger account balance for outstanding travel advances paid from the salaries and expenses appropriation was \$63,568 as of May 31, 1969, whereas the supporting records of individual outstanding travel advances amounted to \$54,126 as of that date, or about \$9,400 less. Personnel in the Finance Division told us that they do not reconcile these records and could not recall whether the records had ever been reconciled.

Recommendations

We recommend that OE's Office of Administration establish procedures for systematic follow-up of outstanding travel advances to help ensure that they are liquidated in a timely manner. We recommend also that provision be made for periodic reconciliation of the general ledger control accounts for outstanding travel advances with the supporting records of individual outstanding travel advances.

NEED FOR PREAUDIT OF VOUCHERS
SUBMITTED FOR PROGRESS PAYMENTS

Our review disclosed that preaudits of vouchers submitted by contractors and consultants requesting periodic payments under grants and cost-type contracts are being made only in the case of activities under title II-A of the Manpower Development and Training Act, and in the case of the final payment voucher submitted for activities under other programs.

Under OE procedures all vouchers and requests for payments under OE grants and cost-type contracts are either received within the Fiscal Services Branch of the Finance Division or are forwarded by other organizational units to the Fiscal Services Branch for processing and payment. The Fiscal Services Branch processes the vouchers and approves them for payment without requiring the program office to give specific approval of satisfactory performance by the contractor or consultant.

After the voucher is certified for payment, an information copy of the voucher is stamped with the notification:

"Information Copy. Provisional payment has been made on this voucher, on the assumption that performance is satisfactory. If performance becomes unsatisfactory, please notify Voucher Examining to withhold future payments."

The voucher is then forwarded to the appropriate program office for informational purposes. If the program office subsequently notifies the Fiscal Services Branch that performance is unsatisfactory, the Fiscal Services Branch has the authority to withhold future payments until a release is received from the program office.

Under OE procedures, personnel of the Contracts and Grants Division of OE are responsible for directing the negotiation and administration of contracts and grants awarded by OE. During our review we noted that vouchers submitted to the Fiscal Services Branch for payments under grants and cost-type contracts were not being submitted to and reviewed by the responsible contracting officers prior to or subsequent to payment to determine whether the terms of the contract are being met. One of the contracting officers in the Contracts and Grants Division told us that contracting officers are not required to review and approve vouchers prior to payment.

Title 7, Chapter 5, Section 24.2, of the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies states that effective control over disbursements requires the preaudit and approval of vouchers before they are certified for payment. One of the principal objectives of the preaudit of vouchers as stated in 7 GAO 24.2 is to determine whether the goods received or the services performed were in accordance with the agreement.

Recommendation

We recommend that OE's Office of Administration require the responsible program office to preaudit vouchers requesting payments under grants and cost-type contracts to determine whether the supplies or services for which the payments are intended have been received or rendered in accordance with the terms of the contracts and to indicate its approval before the Fiscal Services Branch processes the vouchers for payment.

LETTER OF CREDIT FINANCING SYSTEM

In July 1965, HEW began operations under the letter of credit financing system. This system is a fiscal device which provides a flexible and timely method by which recipients of Federal financial assistance can obtain such funds as needed from Federal Reserve banks to make disbursements under approved programs and projects which authorize advance financing. The objective of the letter of credit system is to facilitate cash availability to meet program requirements while at the same time controlling the timing of cash withdrawals by recipients so as to minimize the impact of these withdrawals on the public debt level and related financing costs.

The chief of the Fiscal Services Branch, Finance Division, OE, is the authorized certifying officer responsible for the issuance of letters of credit for all OE programs using the system. A letter of credit is the document which authorizes a recipient organization to submit payment vouchers through its local commercial bank to a Federal Reserve bank or branch for deposit of cash in the recipient's local bank account. The letter of credit document specifies the maximum amount of Federal funds that may be withdrawn by the recipient each month. Before a recipient of a letter of credit can withdraw funds to meet the Federal share of disbursements in connection with the particular programs or projects being financed under a letter of credit, the recipient must first have received a program authorization from OE in the form of a grant award, contract, budget authorization, or similar document which advises the recipient of the total amount of Federal financial assistance that is available for program purposes for a specified time period.

Our review disclosed certain weaknesses in internal control relating to OE's use of the letter of credit system of disbursing Federal funds. These weaknesses are discussed below.

Quarterly reports regarding the use of letters of credit not being submitted to OE on a timely basis

Under OE procedures, each recipient of a letter of credit is required to furnish OE with quarterly reports showing the amount of Federal cash advanced to the recipient during the quarter (cash withdrawals), the amount

of Federal cash disbursed by the recipient, and the amount of undisbursed Federal cash on hand with the recipient. These reports are to be used by OE to determine whether the recipient has excessive Federal cash on hand and whether the letter of credit ceiling for Federal cash advances for subsequent months should be reduced. These reports are to be mailed to the Finance Division by the 20th of the month following the end of each quarter.

On November 12, 1969, we examined the reports that had been submitted to OE for the quarter ending September 30, 1969, and noted that 22 of the 137 reports that were due by October 20th had not been received. OE officials informed us that the responsible recipient organizations would be notified that they should submit the reports by the end of November or their letter of credit authorizations would be suspended. The overdue reports were subsequently furnished to OE in November and December 1969. We noted that most of the 22 reports had not been prepared until the recipients were notified by OE.

Since the timely receipt of quarterly reports is necessary for such reports to be of use to OE in adjusting letter of credit authorizations for subsequent months, we believe that OE's Office of Administration should establish procedures whereby recipient organizations would be notified promptly if their quarterly reports become overdue. Subsequent to our review we were informed that the letter of credit unit had established a control for identifying and notifying those recipients who are constantly late in submitting quarterly reports to OE.

Excessive cash balances of Federal funds on hand as of June 30, 1969

OE issued instructions in December 1968 advising recipients of letters of credit to limit the amount of Federal cash on hand to immediate cash requirements of two days or less. The instructions stated that at the close of each quarterly reporting period, cash balances in excess of this limit would be deducted from the letter of credit authorization for subsequent months. The purpose of the instructions was to improve the control over Federal cash advances and time such advances so as to provide funds only as required by recipients of letters of credit to meet current program expenditures. This, in turn, would minimize Federal interest costs under the letter of credit financing system.

As of December 1968 the monthly ceilings on all letters of credit issued by OE to State agencies totaled about \$411 million. In January 1969, OE reduced the total monthly ceilings to about \$94 million based upon fiscal year 1968 actual withdrawal data, quarterly reports from recipients of letters of credit, and telephone contacts with the recipients.

We reviewed the June 1969 quarterly reports submitted to OE by recipients of 10 letters of credit, to determine whether the grantees were following OE's instructions of limiting the amount of Federal cash on hand to immediate cash requirements of two days or less. We applied OE's criteria for estimating immediate cash requirements to the cash balances shown on the quarterly reports and found that three of the 10 recipients had excessive cash on hand totaling about \$2.8 million, or about 60 percent more than the amount of cash needed to meet their disbursement requirements. Although OE had taken action in January 1969 and substantially reduced the monthly ceilings of the three letters of credit, subsequent authorizations to increase the monthly ceilings resulted in the grantees having excess Federal cash on hand as of June 30, 1969. We noted that as of October 1969, OE had not reduced the monthly ceilings of the three letters of credit in view of the excess cash on hand.

Recommendation

In view of the increases in monthly ceilings since OE's previous action, we recommend that OE's Office of Administration continuously monitor the quarterly reports to provide greater assurance that authorized monthly ceilings are in line with cash requirements.

Copy of payment vouchers not submitted to OE at the time of cash withdrawals

Under OE procedures recipients of letters of credit are required to furnish OE with a copy of all payment vouchers at the time such vouchers are submitted to commercial banks for withdrawal of Federal funds. The reverse side of OE's copy of a payment voucher must show an itemized listing of the estimated amounts needed for each OE program under the letter of credit and the sum of all such estimated amounts must equal the total amount of the payment voucher. At the end of each month OE prepares a listing of all the payment vouchers received during the month and sends this listing, together with a summary statement of the appropriations charged, to the Treasury Department. The Treasury compares the listing submitted by OE with its own listing prepared from copies of vouchers submitted by commercial banks and sends OE a reconciliation of the differences between the vouchers as paid and charged in the account of the Treasury, and as reported by OE.

Our review of the listing of payment vouchers prepared by OE for the month of June 1969 showed that, of the 483 vouchers received by OE through the 25th of that month (the cut-off date for the June report) 50 vouchers, totaling \$6.2 million, were for cash withdrawals made prior to May 16, 1969. Thirty-five of the 50 vouchers were dated prior to May, including two vouchers that were for cash withdrawals in September and November 1968, respectively. Our analysis of the Treasury's reconciliation of payments

under letters of credit through June 1969 showed that 13 additional vouchers totaling \$2.4 million, had not been received by OE in time for its June report even though the vouchers had been paid and charged in the account of the Treasury prior to June 16th.

In a discussion with letter of credit personnel, we were told that the primary reason given by recipients for the delay in sending the vouchers to OE was that they wanted to wait until the funds were actually spent before itemizing on the back of the vouchers the amounts withdrawn by programs, and thus avoid the need to report corrections at a later date.

Since the objective of the letter of credit is to time cash withdrawals as close as possible to the actual day that cash is needed to meet program expenditures, it would seem that the amounts estimated for expenditures under various programs should be reasonably accurate. In view of the reason given for the delays in submitting copies of payment vouchers to OE, it appears that recipients of letters of credit could be withdrawing cash several days in advance of the time such cash is actually needed to meet program expenditures.

Recommendation

We recommend that OE's Office of Administration emphasize to recipients of letters of credit the need for withdrawing cash only as needed and for complying with the established requirements for submitting timely copies of payment vouchers to OE.

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During our review, we brought to the attention of OE officials, certain weaknesses relating to the preparation of collection schedules. We were informed that our suggestions were generally adopted.

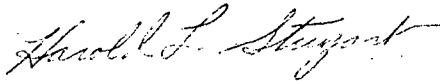
In accordance with the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies, Title 8, Chapter 3, the records of financial transactions through June 30, 1969, may be transmitted to the Federal Records Center for storage in compliance with your records management program.

We wish to acknowledge the courtesy and cooperation given to our representatives during our review. Your written comments and advice

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as to action taken or to be taken on matters in this report will be appreciated.

Sincerely yours,

A handwritten signature in cursive script, reading "Harold L. Stugart".

Harold L. Stugart
Supervisory Auditor

Mr. Leon M. Schwartz
Assistant Commissioner
for Administration
Office of Education
Department of Health, Education,
and Welfare